

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05
EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 ABF-01
FS-01 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00
XMB-02 OPIC-03 LAB-04 SIL-01 AGR-05 L-03 H-01
/090 W

-----011610Z 023890 /45

P R 011435Z JUN 77
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 1933
INFO AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

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EO 11652 NA
TAGS EFIN BR
SUBJECT: CRUZEIRO DEVALUED AS TRADE ACCOUNT SHOWS SURPLUS FOR MAY.

REF: BRASILIA 3529

1. EFFECTIVE MAY 31, THE CRUZEIRO WAS DEVALUED FOR THE SIXTH
TIME THIS YEAR. THE LATEST DEVALUATION, OF 2.2
PERCENT, BRINGS THE CUMULATIVE DROP IN THE CRUZEIRO
RATE SO FAR IN 1977 TO 13.48 PERCENT. DURING THE PAST TWELVE
MONTHS, THE DEPRECIATION AMOUNTED TO 32.67 PERCENT.
THE NEW CRUZEIRO/DOLLAR RATES ARE 19.93 FOR BUY AND 14.00 FOR SELL.

2. BASED ON VERY PRELIMINARY DATA, THE FINANCE MINISTRY ANNOUNCED
THAT THE TRADE ACCOUNT WAS AGAIN IN SURPLUS IN MAY. THE
ANNOUNCEMENT SAID THERE WAS A GOOD CHANCE THAT, ONCE THE FINAL RESULTS

ARE IN, THE TRADE ACCOUNT WILL BE IN CUMULATIVE BALANCE, OR IN
SMALL SURPLUS, THROUGH MAY.

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COMMENT

3. BECAUSE OF THE IMPROVEMENT IN THE TRADE ACCOUNT, THE AUTHORITIES
HAVE DECELERATED THE DEVALUATION OF THE CRUZEIRO IN 1977 AS COMPARED
WITH THE PACE OF 1976. DURING THE FIRST FIVE MONTHS OF 1977,
CUMULATIVE INFLATION WAS ON THE ORDER OF 19-20 PERCENT
(IT WAS 16 PERCENT THROUGH APRIL) OR 5.5-6.5 PERCENT AGE
POINTS HIGHER THAN THE DEVALUATION OF THE CRUZEIRO. IN THE SECOND

HALF OF 1976, INFLATION REGISTERED A RISE OF 19.2 PERCENT (AS MEASURED BY THE GENERAL PRICE INDEX) WHEREAS THE CRUZEIRO WAS DEVALUED BY 14.4 PERCENT, FOR A DIFFERENCE OF ONLY 4.8 PERCENTAGE POINTS. FOR THE FULL YEAR 1976, THE DIFFERENCE BETWEEN INTERNAL INFLATION AND THE EXCHANGE RATE ADJUSTMENT WAS 10.2 PERCENTAGE POINTS (46.3 PERCENT LESS 36.1 PERCENT). IF THE TREND OF JAN/MAY IS CONTINUED

FOR THE REST OF 1977, THE EXCHANGE RATE OF THE CRUZEIRO WOULD LAG INTERNAL INFLATION BY MORE THAN THE EXPECTED AVERAGE RATE OF EXTERNAL INFLATION. THIS WOULD, OF COURSE, MEAN A FURTHER LOSS OF COMPETITIVENESS, DEPENDING ON THE BEHAVIOR OF TERMS OF TRADE.

4. IN SETTING THEIR EXCHANGE RATE POLICY, THE AUTHORITIES HAVE NO DOUBT BEEN INFLUENCED BY THE EXCELLENT PERFORMANCE OF EXPORTS, UP 45 PERCENT THROUGH APRIL. SLOWING THE PACE OF DEVALUATION HAS ALSO BEEN CONSISTENT WITH A TIGHT MONETARY POLICY, WHICH IS BEING FOLLOWED IN THE FIGHT AGAINST INFLATION, AND A DESIRE TO

AVOID ADDING TO INFLATIONARY PRESSURES THROUGH HIGHER IMPORT AND EXPORT PRICES. THE DANGER WITH THIS EXCHANGE RATE POLICY IS THAT IT IS BOTH VERY SHORT-TERM AND VERY SHORT-SIGHTED. IT IS SHORT-TERM IN THE SENSE THAT THE AUTHORITIES ARE MAKING POLICY ON THE BASIS OF WINDFALL EXPORT GAINS MADE POSSIBLE BY HIGH COFFEE AND SOYBEAN PRICES. IT IS SHORT-SIGHTED BECAUSE A RELATIVE REVALUATION

OF THE CRUZEIRO WILL RENDER LESS COMPETITIVE ON THE WORLD MARKET BRAZIL'S EXPORTS OF MANUFACTURED PRODUCTS, WHICH OVER THE LONG RUN ARE SUPPOSED TO PROVIDE FOR STABLE AND SUFFICIENT GROWTH OF BRAZIL'S EXPORT EARNINGS.

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CRIMMINS

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NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TRADE BALANCE, DEVALUATIONS, FOREIGN EXCHANGE RATES
Control Number: n/a
Copy: SINGLE
Sent Date: 01-Jun-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BRASIL04416
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770195-0143
Format: TEL
From: BRASILIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t197706104/aaaadncd.tel
Line Count: 98
Litigation Code IDs:
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Litigation History:
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Message ID: f4069e73-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 BRASILIA 3529
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 02-Dec-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2006965
Secure: OPEN
Status: NATIVE
Subject: CRUZEIRO DEVALUED AS TRADE ACCOUNT SHOWS SURPLUS FOR MAY.
TAGS: EFIN, BR
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/f4069e73-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009